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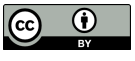

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The Presence of the IBM Branch Office in Iceland, 1967–1992

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Abstract. During the years 1967–1992, IBM World Trade Corporation established and operated a branch office in Iceland. At the time, IBM WTC was that part of the IBM Corporation that handled IBM operations outside the U.S. This paper addresses operational elements and the impact of a large multinational company on the business life of a small society.

Keywords: IBM Branch Office, IBM Iceland

1 Introduction

From the beginning of the 1950s, IBM hardware had been installed at some relatively large companies, organizations, and government agencies in Iceland. This hardware was predominantly bought from IBM Denmark. The increasing complexity and technical advancements in the 1960s created a need to extend service and technical skills in order to satisfy customer demands. In Iceland, these increasing requirements put pressure on the local agent whose role had primarily been to install the IBM hardware and keep it operational during its lifespan.

A decisive aspect in this regard was the introduction of the IBM 1620 scientific processor in Iceland in the mid-1960s. It was evident that new skills and advanced knowledge was mandatory in this rapidly increasing industry to serve adequately customers and prospects. Furthermore, it became clear that these new requirements would exceed the agent's financial and technical capacities. At the initiative of the management of IBM Denmark and after considering some alternatives, the establishment of an Icelandic IBM branch office in Reykjavik was deemed feasible. This office would take over the entire IBM operations, related to data processing equipment, from the agent, while office products (mainly sales and maintenance of IBM typewriters) remained with the dealer.

The formal establishment of the IBM branch office took place on 2 May 1967 after necessary legal issues had been resolved. The transfer of personnel and assets took place from that date and the agent became the general manager of the Icelandic IBM branch office.

The IBM agent employed the author of this paper in 1965 as the manager of its Service Bureau. He was involved in the establishment of the IBM branch office in 1967, held various managerial positions during its lifetime and took part in closing

branch operations in 1992. Thereafter and until his retirement in 2008, the author served with IBM's successor, Nýherji. This article is based on the author's book titled, "Employed by IBM" [1].

2 Legal Issues – Limited Operation

It was no easy task establishing a company of foreign ownership with residence in Iceland. There was a lingering skepticism towards foreign enterprises operating locally, as the history of relations with foreign powers in this previous Danish colony had not been favorable. In addition, local legislation did not provide for the operation of foreign entities on Icelandic territory and, furthermore, proved to be prohibitive in many ways. These were challenging impediments to overcome.

With the assistance of proficient and local legal counsel as well as support from IBM Denmark and IBM World Trade Corporation in New York, a path was found through the local legislation, which satisfied all the clauses. The Ministry of Social Affairs issued a permit in January 1967 authorizing IBM World Trade Corporation to operate a branch office in Iceland that enabled locally installed data processing equipment to be serviced. It is notable that this authorization was restricted to only two years and foreign employees were subject to job permits. Only technical and application service enterprises or service bureau and rental businesses were supported. Sales of equipment had to take place directly between the purchaser in Iceland and IBM WTC in New York, all of which was of no consequence since it was mostly a rental business at that time. Most companies lacked the capacity, at the time, to purchase data processing equipment. The unnecessary restrictions were subsequently abolished; local people were employed, the fear of foreigners had no substance, and in the course of time, it was easy to get the permit extended.

3 Operational Control and Measurable Results

The Icelandic economy is small and vulnerable. At the end of the 1960s, the prices of the country's main export products fell significantly. Foreign currency costs doubled, as did the service that IBM Iceland provided. The results of the first trading years were disastrous as business fell to a minimum. However, IBM was admirably tolerant and understanding with regard to the branch office's difficulties, which were caused by this external and unexpected recession. The locals are renowned for their patience and tenacity. Thereafter, business recovered and at the beginning of the 1970s, operations were starting to run smoothly.

From then on, the presence of IBM and the Icelandic branch led to many positive changes in the young and growing data processing industry of Iceland, and the financial stability of the branch was a fact. Nevertheless, Icelandic branch should be self sufficient in all aspects and could not rely on any external support. Competent staff members were recruited and sent to IBM's education centers overseas to gain and to bring back the new knowledge of a new technology. In addition, teachers and instructors were hired from abroad to give seminars for employees and customers.

Thus, a vast import of knowledge, which was not available in the public education system of the time, took place in the early years of the branch office. While IBM international accounting practices were implemented, plan dissemination and financial budget proposals were put into international channels. Furthermore, business results had to be produced on time and reported effectively. The aspects of control and discipline were implemented into accounting and financial matters; internal audits from IBM Denmark and corporate audits from IBM European headquarters, which scrutinized all the basic elements of the operations, took place at least once a year. Such visits were tough and not always a sought after pleasure for managers.

4 Business Ethics and Personnel Policy

In the late 1950s and early 1960s, the IBM Corporation was sued in the U.S. for violating the antitrust act. This case was resolved by a consent decree in which IBM agreed to adapt to certain business rules and implement them worldwide, which included Iceland where an IBM branch office was now operating.

The introduction and implementation of IBM Business Conduct Guidelines and IBM's Basic Beliefs were the backbone of the business, and all employees were expected to read and live up to their requirements. Focus was on good and reasonable business ethics, which should be based on trust, credibility, loyalty and fairness. The branch should be a "good citizen" in all aspects, customers and colleagues should be shown utmost respect. Furthermore, all relations with customers should be equitable, and orders should be delivered sequentially without deviations. Competition should be handled fairly, which was soon noticeable in the marketplace. In addition, business information would be treated properly, donations would be limited as would the acceptance of presents; any kind of bribery was totally prohibited and subject to dismissal. It was evident that a business unit, which had an experienced and highly sophisticated business culture, was in place and proposed to operate with this culture as its cornerstone.

5 Political Unrest

Successful operations, good business results obtained in a fair and equitable way as well as reasonable taxation paid to central and local governments should normally be considered desirable and beneficial from a local point of view. However, there may also be persons or parties that do not agree. The 1970s, the decade of mainframes, was in many ways a successful period for the young branch office, not least in the public sector. Its success was so extensive that loud protests, questioning the impact of multinational companies like IBM, were heard in the local media. These companies were accused of having a policy that structured the data processing industry so that it served their own needs best, obtained excessive profits, enjoyed substantial benefits from lack of competition, made questionable alliances with local companies, and did not serve the best interest of the country. They were even said to enjoy excessive benefits from local companies by pricing their products and services according to

foreign currency. Furthermore, the transfer of profits and funds to the parent company abroad, after taxation, was also found to be questionable and not subject to normal control as regulated. Even the rental of equipment was thought to be questionable compared to outright purchase. With its 95 percent market share, IBM was said to be in a key position to control the entire data processing industry in Iceland. It was likewise indicated that IBM was the only company that had unlimited access to the country's foreign currency reserves and should it decide to terminate its operation it would be a disaster for the country. Such were the accusations in a nutshell.

The matters of the IBM branch were even subject to formal inquiries in the Parliament. The Minister of Commerce, responding to the inquiries from some leftist members of the House, explained the grounds on which IBM operated in Iceland and stated that the company was profitable and a good taxpayer in Iceland. He considered that pricing was normal and rental a more favorable option than purchase, but it was, of course, the customer's right of choice. The branch office operated under equitable and fair local legislation. During this debate, the branch tended to remain silent, an attitude that was strongly recommended by superiors at headquarters. This tactic was probably quite correct, and gradually the fuss died down.

The above stated views were probably instigated by visions or different opinions, but were minority views, which at all times should have the right to be expressed. On the other hand, the positive indirect impact of the IBM branch office, during its operating life for almost a quarter of a century, was abundant and multifarious.

6 To Be a Good Citizen

From the very beginning, the key objective for the establishment of the Icelandic branch was to run a prosperous business in Iceland, pay taxes locally, similar to any local company, and remit the profits after tax to the parent company. But IBM also had the role of being a good citizen, which can be exemplified by the following instances.

In 1973, a volcanic eruption took place on the island of Heimaey, off the south coast of Iceland. All the five thousand inhabitants were evacuated to the mainland, where they were registered in order to keep track of the entire community for which housing, new jobs, new schools, and so on, had to be found. IBM donated technical assistance by creating records of the entire community, a contribution for which the company received a document of thanks from the Red Cross.

During its operation, IBM donated mainframe equipment to the academic community and the University of Iceland. This was well received by a vast majority, but skeptics voiced their disapproval maintaining that IBM was, above all, securing its marketplace with these donations of selected equipment.

In addition, IBM sponsored a translation center operated by the University of Iceland, where IBM publications were translated to the local language. This was a policy of IBM worldwide at that time, apparently regardless of the size of the marketplace and business volumes, a strategy that dwindled later on for obvious reasons. While it lasted, this contribution greatly supported the academic community, bringing new skills and technology to linguistic research.

Furthermore, IBM's policy of selling products to its branches worldwide for basic production costs without any markup was very beneficial to the Icelandic society. However, this policy was never fully understood by government officials and politicians, and of surprisingly minor interest to heads of commerce. As a result, high taxation, in terms of income tax in Iceland, meant that the IBM branch was amongst the biggest taxpayers in the country for several years. On the other hand, at times, this was subject of envy and misunderstanding, as it was often concluded that the markup in Iceland was too high, even though prices were generally quite comparable to IBM worldwide prices, and thus fair and equitable.

The IBM branch in Iceland supported the local community in many other ways. For a time, they were the main sponsors of the Icelandic Symphony Orchestra; they also made donations to cancer research, public education, and supported chess, sports and the arts. Perhaps the most vital contribution was the integration of the special Icelandic alphabetic characters into the international character tables, which meant that the complete Icelandic alphabet became a standard. This was of utmost importance for the Icelandic language, not least when the intensive use of personal computers began in the 1980s. The key person in this matter, together with local technicians, was Wilhelm F. Bohn, a German engineer who was honored with the Order of the Falcon for his outstanding contribution to the Republic of Iceland, one of two IBMers who have had that honor, the other being Viggo Troels-Smith, general manager of IBM Denmark.

7 Selling Boxes

The bread and butter of the IBM branch during the 1970s and 1980s was the sales and service of the mainframe systems of the IBM 1401 series and later of the IBM 360 series, as well as the successors to the IBM 370 and IBM 4300 series. This period included two installations of the large 3090 series; these dinosaurs weighed tons at each installation and were later replaced by much more compact units. A big boom started when the series of IBM Systems 32, 34, 36, and 38 were announced. Their successor, the AS/400, was also extremely successful. The branch had started the application development for these midrange installations, which was very successful; however, a strategic worldwide IBM decision, at one point, declared that they would not provide this kind of service any more, stating that this should be handled by software houses without competition from IBM. While this decision was not favorable for the IBM branch, it resulted in the establishment of a range of local software houses in the early 1980s, which thereafter more or less took over the application service for IBM customers.

The success of the IBM branch office in selling boxes, which began in the early 1980s, would never have materialized if the branch had not obtained full operational licenses to sell and support products directly in its own name. The branch was now entirely comparable to any local enterprise in a fully competitive business environment. IBM now had a considerable market share in all major industries such as banking, insurance, transportation, fish-freezing plants, governmental service, and major enterprises. In addition, the IBM branch supported the establishment of

important service institutions such as the Bank Data Center, which assisted all the local banks with a variety of services. Furthermore, the IBM branch hired one of the first dedicated data communication lines to the country, in order to be able to better support their local customers in Iceland. The IBM Data Center was also of immense support to the branch and IBM customers with regard to application service.

However, IBM was not very successful in one specific part of the business, the IBM personal computer or the IBM Personal System. The pricing of this new computer, determined centrally at headquarter units, was at all times out of line, making it therefore easy for competitors to sell more computers than IBM. Quality and endurance were of a lesser priority for units that were outdated, in terms of capacity, in two to three years. IBM lacked the necessary pricing flexibility, and selling this new unit, as a mainframe unit did not work well. Consequently, IBM later relinquished this business and sold the PC segment to a Chinese company.

8 To End in Prosperity

At the beginning of the 1990s, the IBM branch was a flourishing enterprise, financially sound, employing around eighty people, operating from its own property, and an unquestionable presence in the local community. It seemed therefore paradoxical that after a thorough investigation by IBM, they decided to terminate the operation of the IBM branch in Iceland.

It was a matter of common knowledge that the size of the IBM business unit in Iceland had been a matter of concern for some time. The unit had increasing problems adapting to all the control demands on which Big Blue (IBM) insisted. In addition, IBM products alone were considered too limited in number to justify a sound operational unit. It would be better for IBM to support a new company with the amalgamation of another, thus improving service to the local market and its customers. Big Blue was willing to support such an organization with one third of the initial share capital. The new company would take over all the previous sales and services of the IBM branch, as well as most of the former IBM employees. This was the start of the successor to the IBM branch, Nyherji, which was established on 1 April 1992.

In life, everything has its time; life begins and ends. This applies to business life as well. The life of IBM Iceland was fruitful and respected. The branch office was more Icelandic than many Icelandic companies were. IBM left Iceland with dignity. Its integrity and loyalty to the community was significant, its rules of operation were honest and just. IBM's business ethics were unique and unprecedented; the business results were fair and reasonable. It brought wealth and prosperity into a small society.

Nevertheless, IBM left Iceland and, by its leaving, the society lost too much business control, integrity, fairness, equitable handling, good citizenship, reasonability, respect for the individual, and other business merits. This was unfortunate for those who remained, but that saga would probably be the subject of another article.

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